

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-261-E - ORDER NO. 2010-472

JULY 15, 2010

IN RE:	Application of South Carolina Electric & Gas Company for the Establishment and Approval of DSM Programs and Rate Rider)	ORDER APPROVING SCE&G'S REQUEST FOR THE ESTABLISHMENT AND APPROVAL OF DSM PROGRAMS AND RATE RIDER
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INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the “Commission”) pursuant to a request made by South Carolina Electric & Gas Company (“SCE&G” or the “Company”), under the authority of S.C. Code Ann. § 58-37-20 (1976, as amended), and pursuant to the terms of Commission Order No. 2009-104(A) for review of its proposed suite of demand side management (“DSM”) programs and the establishment of an annual rider to allow SCE&G’s recovery of costs and net lost revenue associated with its DSM programs along with an appropriate incentive for investing in such programs.

SCE&G filed its Application in this proceeding on June 30, 2009. Timely Petitions to Intervene were received from South Carolina Energy Users Committee (“SCEUC”), Friends of the Earth (“FOE”), CMC Steel South Carolina (“CMC Steel”), South Carolina Coastal Conservation League (“CCL”), Southern Environmental Law Center (“SELC”), and Frank Knapp, Jr., *pro se*. The South Carolina Office of Regulatory

Staff (“ORS”) was automatically a party to this proceeding pursuant to S.C. Code Ann. § 58-4-10(B).

On August 27, 2009, SCE&G prefiled the direct testimony of witnesses Felicia Howard, David Pickles, Kenneth Jackson, and Scott Wilson. Updated direct testimony for Kenneth Jackson was filed on December 17, 2009. On January 7, 2010, ORS prefiled the direct testimony of Randy Gunn and Christina Seale, SELC and CCL prefiled the direct testimony of William Steinhurst and Thomas Lyle, and SCEUC prefiled the direct testimony of Kevin W. O'Donnell. On January 14, 2010, SCE&G's witnesses Howard, Pickles, Jackson and Wilson prefiled rebuttal testimony, and on January 21, 2010, SELC and CCL witnesses Steinhurst and Lyle prefiled surrebuttal testimony.

On March 31, 2010, the parties filed two separate Settlement Agreements with the Commission (collectively “Settlement Agreements”). The first Settlement Agreement (the “General Settlement Agreement”) was between SCE&G, ORS, SELC, CCL, and Mr. Knapp and set forth those parties' agreements on multiple matters at issue in this proceeding. The second Settlement Agreement (the “Opt-Out Settlement Agreement”) was between SCE&G, ORS, SCEUC, and CMC Steel and established a procedure for certain large customers of SCE&G to opt out of any offered DSM programs and associated DSM charges pursuant to the proposed rate rider.

By statute, the Commission is vested with the power and jurisdiction to supervise and regulate the rates and service of every public utility in this State and to fix just and reasonable standards, classifications, regulations, practices, and measurements of service

to be furnished, imposed or observed, and followed by every public utility in this State.

S.C. Code Ann. Section 58-3-140(A) (Supp. 2009).

Further, the Settlement Policies and Procedures of the Commission are pertinent to the matter before the Commission and consistent with its statutory duties. Section II of that document (“Consideration of Settlements”) states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission’s consideration of the settlement. For example, the Commission may summarily accept settlement of an essentially private dispute that has no significant implications for regulatory law or policy or for other utilities or customers upon the written request of the affected Parties. On the other hand, when the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlements shall be based upon substantial evidence in the record.

In accordance with the above-described duties, a hearing was held before the Commission on SCE&G’s Application on April 1, 2010. At the hearing, SCE&G was represented by K. Chad Burgess, Esquire; Mitchell Willoughby, Esquire; and Belton T. Zeigler, Esquire. ORS was represented by Shannon Bowyer Hudson, Esquire. SELC and CCL were represented by J. Blanding Holman, IV, Esquire; Gudrun Elise Thompson, Esquire; and Jill Mara Tauber, Esquire. FOE and SCEUC were represented by Robert Guild, Esquire and Scott Elliott, Esquire, respectively. CMC Steel and Mr. Knapp did not appear.

During the hearing, the General Settlement Agreement and the Opt-Out Settlement Agreement were entered into the record as Hearing Exhibits No. 1 and No. 3, respectively, without objection and are attached hereto and incorporated herein as Order Exhibit No. 1. Exhibit A to Hearing Exhibit No. 3 contained the revised direct testimony of SCEUC's witness, Mr. O'Donnell, which was also entered into the record of the hearing without objection. During the hearing, SCE&G's witnesses Howard, Jackson, and Pickles offered testimony from the stand in support of the Settlement Agreements. Also during the hearing, FOE stated for the record that while it was not a signatory to the General Settlement Agreement, it did not object to the Commission approving it.

I. BASIS FOR SCE&G'S APPLICATION

In Commission Order No. 2009-104(A), the Commission directed SCE&G to submit the results of a completed DSM analysis and its proposals for expanded DSM offerings to the Commission for review no later than June 30, 2009. In compliance with that Order and in accordance with the terms of S.C. Code Ann. § 58-37-20, SCE&G initiated this proceeding. S.C. Code Ann. § 58-37-20 authorizes the Commission to adopt procedures that encourage electrical utilities to invest in cost-effective energy efficient technologies and energy conservation programs. The statute further provides that if the Commission chooses to adopt such procedures they must:

- Provide incentives and cost recovery for electric utilities that invest in energy supply and end-use technologies that are cost effective, environmentally acceptable, and reduce energy consumption or demand;

- Allow electric utilities to recover their costs and obtain a reasonable rate of return on their investment in qualified DSM programs sufficient to make those programs at least as financially attractive as construction of new generating facilities; and
- Establish rates and charges that ensure that the net income of an electrical utility after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

S.C. Code Ann. § 58-37-20. This Commission has also found that South Carolina utilities should aggressively pursue and implement cost effective DSM and energy efficiency programs for the benefit of their customers. See Commission Order No. 2009-373, p. 5.

II. SCE&G's PROPOSED DSM PROGRAMS

In its Application, as modified by the Settlement Agreements, the Company has proposed a suite of nine DSM programs based upon its analysis of potential DSM offerings and its assessment of the relative cost effectiveness, practicality of implementation and market receptivity to such programs. As Company witness Ms. Howard testified:

In 2008, SCE&G commissioned a comprehensive, “bottom up,” analysis to determine how it might expand its offering of DSM programs to assist customers interested in reducing their demand for electricity and improving their energy efficiency. To ensure that this analysis was conducted in a thorough and professional way, SCE&G hired one of the leading energy consulting firms nationally, ICF International (“ICF”). ICF was given a mandate to use its

considerable national and international experience with DSM programs to consider any measures it believed to have potential for SCE&G's system. ICF was instructed to perform careful cost/benefit screenings on selected programs. This was consistent with the Company's commitment to implement only those programs and measures that showed a reasonable likelihood of producing verifiable and cost-effective benefits to customers and the system.

Tr. pp. 30-31.

Mr. Pickles, SCE&G's independent consultant and Vice President of ICF, testified that the primary objectives of ICF's analysis were to estimate the load impacts of implementing various individual DSM measures; to compare the cost of these measures against SCE&G's cost of generation, ensuring that the DSM measures are more economical; and to design and evaluate DSM programs (that promote groups of DSM measures), including assessment of implementation costs, customer participation in the programs, and the amount of measure adoption that would occur even if SCE&G did not have a program. Tr. p. 73.

Based upon ICF's analysis, SCE&G proposed in its Application a suite of nine DSM programs. Of the nine programs proposed by SCE&G, seven target SCE&G's residential customer class and two target SCE&G's commercial and industrial customer classes.

As Mr. Pickles testified,

SCE&G's programs reflect an appropriate and timely response to recent increases in generation costs, changes in customer receptivity to DSM programs, constraints associated with the local infrastructure to support DSM, and the acceptable rate impacts associated with the recovery of DSM program costs. As suggested by the

National Action Plan for Energy Efficiency and others, it is most appropriate for utilities seeking to offer new large scale DSM programs to do so in a measured and deliberate fashion. This gives the local market infrastructure, the utility, regulators, trade allies, and other participants the time needed to ensure that the programs are effectively and prudently implemented, and to ensure that customers value the DSM programs and are willing to accept the rate increases necessary to support them. Additional and or more complex programs might be considered for implementation, but only after success with the initial portfolio of programs.

Tr. p. 94-95.

As part of the General Settlement Agreement, ORS, along with Intervenors, SELC, CCL, and Frank Knapp, Jr., all recommended that this Commission approve SCE&G's energy efficiency programs as proposed in the Application subject to certain modifications as set forth in the General Settlement Agreement. Specifically, SCE&G agreed to expand the initial implementation phase of its Residential Energy Information Display program, if approved, to include additional customers from the Company's small general service class of customers which could effectively use the display technology selected. Based upon the results of that initial implementation phase, SCE&G agreed to consider the feasibility of renaming and expanding the program to include the small general service class of customers in the full implementation and roll out of the program. Hearing Exhibit No. 1, p. 6. In addition, SCE&G has committed to developing a DSM program designed specifically for low-income customers in its service territory. This program will be submitted for review and comment to an Advisory Group, discussed in more detail below, and will be implemented in program year two or three.

In addition to the proposed DSM programs, SCE&G has requested the authority and flexibility to modify, amend, terminate and/or add any measure or program to its suite of programs without the requirement of seeking prior Commission approval to do so. In support of this request, Ms. Howard testified:

Permitting SCE&G to have the authority to alter its DSM measures and programs as requested will ensure that they can be routinely updated in response to changing needs of the customers and the system. Such flexibility will allow for faster evolution of programs to meet customer expectations, and will make for a more efficient and effective suite of programs in the long run.

Tr. p. 49.

Ms. Howard also emphasizes that all such modifications or changes would be reported annually to the Commission and ORS as part of the annual review filings. Tr. p. 184. Mr. Pickles and Mr. Gunn agreed and testified that such flexibility is reasonable and is generally being approved in other jurisdictions. Tr. p. 189-90; Tr. p. 400-01. ORS and the other signatories to the Settlement Agreements have agreed that this flexibility, as requested in SCE&G's application, should be approved.

For the reasons set forth above, and in light of the Settlement Agreements, the Commission finds that SCE&G's proposed suite of DSM programs represents an appropriate and reasonable approach for implementing DSM measures that are in the public interest and are consistent with S.C. Code Ann. § 58-37-20. The suite of programs appears to be helpful in allowing the public to participate in energy efficiency and demand side management activities, thereby affording consumers an opportunity to manage their electricity consumption.

The implementation of cost effective energy efficiency and demand side management programs should benefit both the utility and the customer. Customers will benefit by having the opportunity to reduce their electricity consumption and/or by switching their consumption to off-peak periods when the cost of producing electricity is lower. As customers reduce electricity consumption, the Company benefits by eliminating or delaying the need to construct new power plants. When customers shift load from peak periods to off-peak periods, the Company benefits from operating base load and intermediate generating units more efficiently and by eliminating or delaying the need to construct new peaking generating units.

The Commission further finds that the flexibility in modifying this suite of programs requested by SCE&G will aid the Company in implementing its DSM programs in an efficient manner and will provide it with the ability to adjust these programs based on evolving market conditions and information. The Commission directs that SCE&G include information regarding any and all such modifications in its annual filing with the Commission and ORS.

III. RATE RIDER MECHANISM

Through its Application as modified by the terms of the General Settlement Agreement, SCE&G also seeks approval of a rate rider to allow it to recover: (1) its actual program costs associated with developing, implementing and administering its DSM programs; (2) net lost revenues resulting from these programs; and (3) a shared savings incentive. S.C. Code Ann. § 58-37-20. The details of the rate rider mechanism

and its implementation are set forth in detail in the General Settlement Agreement and in Exhibits No. 1 and 2 to the document, which are incorporated by reference to this Order.

a. Program Costs

S.C. Code Ann. § 58-37-20 makes provisions for an electric utility to be permitted to recover its costs and obtain a reasonable rate of return on its investment in qualified DSM programs sufficient to make those programs at least as financially attractive as construction of new generating facilities. As Company witness Kenneth Jackson testified,

The rate rider has been developed to allow the Company to recover its reasonable and prudent costs incurred to implement and operate the DSM programs, including administrative and general costs and overheads. These costs will be deferred as a regulatory asset, and for calculating the rider recovery amount, they will be amortized over a five-year period.

Tr. p. 136. The Company proposes the five-year period amortization as reasonably balancing the need and interest of the Company in the timely recovery of DSM expenses with the interest of customers in spreading out the recovery of these costs over time. Tr. p. 136. Mr. Jackson also testified that “[l]onger amortization periods require the Company to hold larger balances of unrecovered DSM costs, increasing its carrying costs and risks while placing larger demands on its ability to raise capital.” Tr. p. 136-37. In addition, under the terms of the General Settlement Agreement, ORS and the other signatories agree that SCE&G should be allowed “to defer and amortize into the rate rider calculation all prudently incurred costs for the programs . . . over five years with carrying

costs at the Company's weighted average cost of capital." General Settlement Agreement, p. 8.

For the reasons stated above, the Commission finds that it is reasonable, in the public interest, and in accordance with S.C. Code Ann. § 58-37-20 that SCE&G be allowed to recover all reasonable and prudent costs incurred in implementing, operating, and administering the approved DSM programs under the terms set forth in the General Settlement Agreement, which includes a five-year amortization of those costs with carrying costs at the Company's weighted average cost of capital.

b. Net Lost Revenue

With regard to net lost revenues, S.C. Code Ann. § 58-37-20 makes provisions for the net income of an electrical utility after implementation of specific cost-effective energy conservation measures to be at least as high as the net income would have been if the energy conservation measures had not been implemented. Under the terms of the General Settlement Agreement, the parties agreed that SCE&G should be permitted to recover net lost revenues resulting from implementation of its DSM programs through the rate rider.

Net lost revenues under the settlement agreement are defined as "retail revenue losses incurred as a result of lost retail sales due to SCE&G's new energy efficiency measures, net of fuel and other variable operation and maintenance costs." General Settlement Agreement, p. 8. As testified by Mr. Jackson, net lost revenue will be calculated for each upcoming period based on the forecasted level of customer participation in each DSM measure and will reflect the reduction in demand charges and

MWH sales that are calculated to occur as a result of customer participation in each DSM measure exclusive of the reductions that would have happened in the absence of the measures. Tr. p. 137-38. At the end of each review period, the net lost revenue for that review period will be recalculated and trued-up using actual market penetration data. Tr. p. 138. Any differences in the calculation of forecasted net lost revenue as compared to calculations based on actual penetration rates will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the prospective review period.

Similarly, when new Evaluation Measurement & Verification (“EM&V”) data is produced adjusting the kW or kWh savings per measure implemented, the net lost revenue for the current period will be trued-up based on that data with the adjustment reflected in the rate rider calculation for the prospective review period. As set forth in the General Settlement Agreement, net lost revenues shall not include interest or carrying costs, and no net lost revenues shall be recovered through the rate rider for research and development activities or for other programs whose primary purpose is that of promoting general awareness and education concerning energy efficiency and not the implementation of specific measures by customers. General Settlement Agreement, p. 9. Recovery through the rate rider of net lost revenues pertaining to a group of measures adopted by customers in prior program years shall cease upon the implementation of new retail electric rates in a general rate case proceeding to the extent that those new rates explicitly or implicitly allow the Company to recover the net lost revenues associated with the implementation of those measures in those prior periods.

The Commission finds that it is reasonable, in the public interest, and fully consistent with S.C. Code Ann. § 58-37-20 that SCE&G be allowed to recover net lost revenues under the terms set forth in the General Settlement Agreement.

c. Incentive

S.C. Code Ann. § 58-37-20 allows rates established by the Commission under its provisions to be sufficient to make the utility's DSM programs at least as financially attractive as construction of new generation facilities. To accomplish this, the General Settlement Agreement provides that the rate rider shall include a shared savings incentive equal to 6% multiplied by the estimated net benefits of each energy efficiency program calculated using the Utility Cost Test. As the General Settlement Agreement states, a shared savings incentive of 6% provides the Company with a reasonable financial incentive to implement effective DSM programs while providing customers with 94% of the program net benefits. As Mr. Pickles testified, an incentive of this type is consistent with incentives adopted by other jurisdictions and is reasonable. Tr. p. 128.

In ascertaining the amount of the incentive, actual net program benefits will be calculated for the measures installed or adopted in a given year by multiplying the kWh and kW savings over the measurement units' lives by the annual per kWh and kW avoided costs used in calculating the initial incentive, and subtracting the associated program costs for those measures. The results will be discounted to present value. Until EM&V results become available, the incentive will be based on estimated net program

benefits using data from the South Carolina Measures Library¹ to the extent available. After verified results become available, true-ups will occur during the annual filings between the estimated and actual net program benefits so that the incentive ultimately to be recovered for a given program year is based on the actual net program benefits derived from EM&V results. No interest or carrying costs are allowed for the incentive true-up. Incentives shall not be recovered through the rate rider for programs related to research and development activities and programs with the primary purpose of promoting general awareness and education only and which do not involve the implementation of specific measures. Under the General Settlement Agreement, the incentive earned by the Company will be amortized over five years without interest or carrying costs and added to the calculation of the Company's annual rider.

The Commission finds that it is reasonable, in the public interest, and fully consistent with S.C. Code Ann. § 58-37-20 that SCE&G be allowed to recover an incentive under the terms set forth in the General Settlement Agreement. Attached to the General Settlement Agreement, as Exhibit No. 2, is a copy of the rider to retail rates that incorporates the provisions agreed to by the parties to that agreement. This rate rider is hereby approved and shall become effective no earlier than the first billing cycle for September 2010.

¹ The South Carolina Measures Library Database was created by Morgan Marketing Partners for SCE&G, Duke Energy, Progress Energy and Santee Cooper. The Measures Database quantifies the likely impact on energy usage and demand related to a broad range of DSM measures and includes data and analysis specific to South Carolina's customers and their usage patterns.

IV. EVALUATION, MEASUREMENT, AND VERIFICATION

Under the terms of the General Settlement Agreement, the Parties agreed to a procedure for the EM&V of the cost and benefits of SCE&G's DSM programs. SCE&G has agreed that no later than thirty (30) days prior to the initial date of making DSM programs available to the public, it will submit an EM&V plan for its programs and measures to the parties to the General Settlement Agreement for review and comment. The EM&V plan will set forth industry-accepted program evaluation protocols to allow for an accurate determination of program costs and benefits, including a provision that evaluations be conducted in each program year, unless otherwise agreed upon by ORS and SCE&G, in order to ensure the sound design, delivery and continuous improvement of programs. General Settlement Agreement, p. 7. The EM&V plan will reflect an industry-accepted term of measurement and evaluation for each program. The parties to the General Settlement Agreement will then provide written comments concerning the EM&V plan to SCE&G within fifteen days of submission of the plan. The EM&V plan will provide for EM&V to be conducted either: (1) by an independent third party evaluator selected by SCE&G after review with ORS or (2) at ORS's election and with SCE&G's agreement all or part of the evaluation may be conducted by ORS. If the parties are unable to agree regarding the provisions and terms of the EM&V plan, a party may petition the Commission for a hearing to resolve any dispute. New EM&V results will be due no later than six months after each reporting period, unless otherwise agreed upon by ORS and SCE&G.

The Commission finds that it is reasonable and in the public interest that EM&V of SCE&G's DSM programs be conducted in this manner and SCE&G is directed to develop and implement its EM&V plan as set forth in the General Settlement Agreement.

V. ANNUAL FILINGS

The General Settlement Agreement sets forth certain detailed provisions regarding annual filings for review of SCE&G's DSM programs. Under these provisions, SCE&G will be required to make annual filings before the Commission where the programs, net lost revenues, program costs, incentive, net program benefits and other items as appropriate will be set forth. The review period for these annual filings will be the period beginning December 1st and ending twelve months later on November 30th. The first annual filing will occur in January 2011 following the approval of SCE&G's DSM programs with subsequent annual filings occurring each January of the following years. A more detailed chart of the annual filings is set forth in the General Settlement Agreement at page 5.

The Commission finds that it is reasonable and in the public interest that SCE&G present this data to the Commission on an annual basis. SCE&G is directed to make annual DSM filings as set forth in the General Settlement Agreement.

VI. ADVISORY GROUP AND ENERGY EFFICIENCY POTENTIAL STUDY

In addition to the above matters, the General Settlement Agreement provides that SCE&G will establish an energy efficiency advisory group (the "Advisory Group"). The Advisory Group shall include ORS and SCE&G, a representative from SELC/CCL, a representative from the South Carolina Small Business Chamber of Commerce as well as

a representative each from the low-income and industrial sectors. The Advisory Group will meet over a three-year program term, and will meet three times during the first year following its establishment and no less than twice per year thereafter. The role of the Advisory Group is to consider and make recommendations to SCE&G with respect to efficiency potential studies, new program ideas, modifications to existing programs, outreach and education programs and funding, and EM&V plans. General Settlement Agreement, p. 13.

The Commission finds that the creation of the Advisory Group is reasonable and in the public interest and directs SCE&G to establish and implement the Advisory Group as set forth in the General Settlement Agreement.

The General Settlement Agreement also provides that SCE&G will prepare and present to the parties to the agreement and the Advisory Group a study of the energy efficiency potential for SCE&G's service territory. This potential study will be prepared with a forecast review period that conforms to the Integrated Resource Plan requirements. General Settlement Agreement, p. 11. The potential study will be prepared by consultants retained by SCE&G and will include estimates of the technical potential for energy efficiency, the economic potential for energy efficiency, the achievable potential for energy efficiency, and the program potential for energy efficiency. The cost of the study shall be treated as a program cost subject to recovery under the rate rider.

The Commission finds that it is reasonable and prudent to propose such a study and that the cost of the study is a valid DSM expense.

VII. TREATMENT OF INDUSTRIAL CUSTOMERS

In its Application, SCE&G proposed a mechanism for permitting certain qualifying industrial customers to opt out of its suite of DSM programs and the associated charges established under the rate rider. The Opt-Out Settlement Agreement clarifies and simplifies this opt-out provision. It removes the kW or kWh criteria for qualifying for the opt-out and instead makes opt-out available to all customers with certain industrial Standard Industrial Classification or North American Industry Classifications System codes. Pursuant to the Opt-Out Settlement Agreement, all industrial customer² accounts may opt out of the DSM and Energy Efficiency/Demand Response programs and costs at issue in this proceeding by notifying SCE&G in writing that the customer has implemented or will implement alternative DSM and Energy Efficiency/Demand Response programs at its own expense and does not wish to participate in SCE&G's program. Such notification shall be made on a form provided by SCE&G and shall be effective on and after the date that such form is received by SCE&G.

SCEUC's witness, Kevin O'Donnell, testified in support of allowing industrial customers to opt out of DSM programs and charges. As Mr. O'Donnell testified:

Intense competition has forced manufacturers to actively seek every possible way to cut costs and stay in business. It is very likely that manufacturers have already implemented energy efficiency measures that have created ongoing energy efficiency savings that may easily eclipse anything that SCE&G is proposing in the current application. If manufacturers are now forced to participate in SCE&G's EE/DSM programs after they have already

² For purposes of this opt out, the parties have stipulated that an industrial customer is a member of that class of customers meeting the industrial classification found in the current Rate 23, provided, however, that the 1,000 kW threshold shall not apply. Furthermore, the parties have stipulated that all current members of SCEUC shall qualify as industrial customers for purposes of the opt-out.

completed past energy efficiency projects, they will essentially be “double-dipped” on energy efficiency costs.

Tr. p. 247-48. In addition, SCEUC notes that the terms and provisions of the Opt-Out Settlement Agreement regarding the opt out of industrial customers is in accord with prior opt-outs approved by this Commission with respect to other utility DSM initiatives. See Order No. 2009-373 in Docket No. 2008-251-E; Order No. 2010-79 in Docket No. 2009-226-E.

Based on the evidence in this proceeding, and the Commission’s precedent, we find that SCE&G’s industrial customers should be allowed to opt out of SCE&G’s DSM programs and charges as set forth in the Opt-Out Settlement Agreement. By making the procedure for opting out simple and easy to administer for both the customers and SCE&G, it will support business retention and economic development.

IT IS THEREFORE ORDERED THAT:

1. SCE&G’s Application in this proceeding, as amended by the General Settlement Agreement and the Opt-Out Settlement Agreement, is approved.

2. The General Settlement Agreement and the Opt-Out Settlement Agreement are incorporated herein by this reference, are found to be a reasonable resolution to the issues in this case, are in the public interest and are therefore hereby adopted and approved. The Commission also approves the tariff sheet attached to the General Settlement Agreement as Exhibit 2 and entitled “Rider to Retail Rates – Demand Side Management Component.” The tariff should be electronically filed in a text searchable PDF format using the Commission’s Document Management System (“DMS”) (<http://dms.psc.sc.gov>). An additional copy should be sent via email to

etariff@psc.sc.gov to be included in the Commission's ETariff System (<http://etariff.psc.sc.gov>). Future revisions to the tariff should be made using the ETariff System. The tariff shall be consistent with the findings of this Order and agreements with other parties to this case. The tariff shall be consistent with the Commission's Rules and Regulations, and shall be filed as stated within 10 days of receipt of this Order.

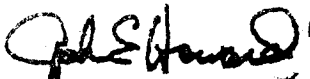
3. SCE&G may recover its costs incurred in providing DSM programs, net lost revenues, and a shared savings incentive of 6% of the net benefits of the DSM programs through the rate rider attached as Exhibit 2 to the General Settlement Agreement. DSM program costs and the shared savings incentive shall be recorded on the Company's books as a regulatory asset and amortized over a five year period.

4. SCE&G shall initiate annual filings as set forth herein beginning in January 2011 and in each subsequent January through the life of the DSM programs.

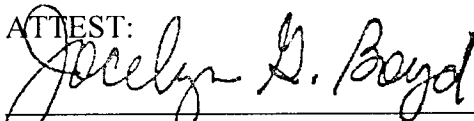
5. Industrial customers, as defined herein, may opt out of SCE&G's DSM programs in accordance with the terms of the Opt-Out Settlement Agreement.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



John E. Howard, Chairman

ATTEST:


Jocelyn G. Boyd, Chief Clerk/Administrator
(SEAL)

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SOUTH CAROLINA
DOCKET NO. 2009-261-E
MARCH 31, 2010

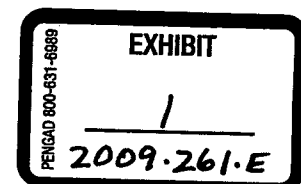
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IN RE:)
South Carolina Electric & Gas Company)
Request for Approval of Demand Side)
Management Plan Including a Demand Side)
Management Rate Rider and Portfolio of)
Energy Efficiency Programs)

SETTLEMENT AGREEMENT

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff ("ORS"); Southern Environmental Law Center ("SELC"); South Carolina Coastal Conservation League ("SCCCL"); Frank Knapp, Jr. *pro se*; and South Carolina Electric & Gas Company ("SCE&G" or "the Company") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the Public Service Commission of South Carolina ("Commission") opened this docket to consider SCE&G's Request for Approval of Demand Side Management ("DSM") Plan Including a Demand Side Management Rate Rider and Portfolio of Energy Efficiency Programs ("Application") filed on June 30, 2009. The Application requests that the Commission (i) consider the results of SCE&G's analysis of potential demand reduction and energy efficiency offerings ("programs"), (ii) review SCE&G's proposed suite of programs, and (iii) review an annual rider ("rider") to allow recovery of SCE&G's costs and lost net margin revenue associated with its programs along with appropriate incentives for investing in such programs;



WHEREAS, S.C. Code Ann. § 58-37-20 states:

The South Carolina Public Service Commission may adopt procedures that encourage electrical utilities and public utilities providing gas services subject to the jurisdiction of the commission to invest in cost-effective energy efficient technologies and energy conservation programs. If adopted, these procedures must: provide incentives and cost recovery for energy suppliers and distributors who invest in energy supply and end-use technologies that are cost-effective, environmentally acceptable, and reduce energy consumption or demand; allow energy suppliers and distributors to recover costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction of new generating facilities; require the Public Service Commission to establish rates and charges that ensure that the net income of an electrical or gas utility regulated by the commission after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

WHEREAS, the Commission allowed for public comment and intervention in the above-captioned docket;

WHEREAS, SCCCL, SELC, Friends of the Earth (“FOE”), Frank Knapp, Jr. *pro se*, SCEUC, and CMC Steel (collectively “Intervenors”) made timely requests to intervene;

WHEREAS, ORS is automatically a party in all dockets opened by the Commission;

WHEREAS, SCE&G, ORS, SCEUC, CMC Steel, SELC, and SCCCL pre-filed testimony in this docket;

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket. The remaining parties of record in the above-captioned proceeding are not parties to this Settlement Agreement;

WHEREAS, the Parties have engaged in discussions to determine if a Settlement Agreement would be in their best interest, and in the case of ORS, in the public interest;

WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by agreeing to request approval of the

Application as amended below and to other matters in the above-captioned case under the terms and conditions set forth below in this Settlement Agreement.

TESTIMONY AND OVERVIEW

1. The Parties agree to stipulate into the record before the Commission the direct or where applicable updated direct, rebuttal, and surrebuttal testimony and exhibits of the following eight (8) witnesses without objection, change, amendment or cross-examination with the exception of changes comparable to those that would be presented via an errata sheet or through a witness noting a correction consistent with this Settlement Agreement.

SCE&G witnesses:

- a. Felicia Howard
- b. Kenneth Jackson
- c. Scott Wilson
- d. David Pickles

ORS witnesses:

- e. Randy Gunn
- f. Christina Seale

SELC/SCCCL witnesses:

- g. Dr. William Steinhurst
- h. Thomas Lyle

The Parties agree that Christina Seale, Thomas Lyle, William Steinhurst, and Scott Wilson need not testify in person at the hearing unless requested by the Commission.

2. The Parties agree that the following witnesses may present to the Commission a brief overview of key terms of the Settlement Agreement and a statement of their support of the Settlement Agreement in the summaries of their direct and rebuttal testimony that they will provide at the hearing in this matter:

- a. Felicia Howard
- b. Kenneth Jackson
- c. David Pickles

3. The Parties agree that no other evidence will be offered in the proceeding by the Parties other than the stipulated testimony and exhibits identified above.

4. All Parties reserve the right to conduct redirect examination of their witnesses, as necessary, in order to respond to issues raised by the examination of their witnesses, if any, by non-Parties, or to any late-filed testimony.

5. The Parties agree to accept all audit adjustments as put forth by ORS witness Christina Seale.

6. The Parties agree to a mechanism that encourages the Company to promote energy savings by allowing the Company, via a rider, the ability to recover net lost revenues, recover program costs, and earn an incentive based on energy savings created by its programs.

7. The Parties agree this mechanism will apply to three annual review cycles provided that if the mechanism is not extended at the end of year 3, the rate rider will remain in effect solely to collect unamortized cost until such costs are exhausted.

8. In administering the mechanism, an annual proceeding (“the annual recovery proceeding” or “annual filing”) will be held where the programs, net lost revenues, program costs, incentive, net program benefits and other items as appropriate will be reviewed.

9. The Parties agree that the review period for the annual recovery proceedings will be the period beginning December 1st and ending twelve months later on November 30th. To the extent necessary, the month of November may be estimated and trued-up the following year.

10. The annual filings will occur under this Agreement as set forth in the chart below. The April 2010 Establishment and January 2011 filing will be based on estimates as actual data

will be unavailable. The remaining annual filings will include true-ups between estimated and actual data.

SCE&G Filing Date	Program Year	Annual Recovery Proceeding		
		Program Costs	Net Lost Revenues	Incentive
April 2010 Establishment		Actual costs through Oct. 2009.	Estimated through Nov. 2010	Estimated through Nov. 2010
Jan. 2011	1	Actual costs Nov. 2009 through Oct. 2010. Estimated costs for Nov. 2010.	Estimated through Nov. 2011	Estimated through Nov. 2011
Jan. 2012	2	True-up of Nov. 2010 costs. Actual program costs Dec. 2010 through Oct. 2011. Estimated costs for Nov. 2011.	Estimated through Nov. 2012. Actual data will be available for the 2010 Establishment period and year 1. A true-up will occur for the 2010 Establishment period and year 1.	Estimated through Nov. 2012. Actual data will be available for the 2010 Establishment and year 1. A true-up will occur for the 2010 Establishment period and year 1.
Jan. 2013	3	True-up of Nov. 2011 costs. Actual program costs Dec. 2011 through Oct. 2012. Estimated costs for Nov. 2012.	Estimated through Nov. 2013. Actual data will be available for year 2 and a true-up will occur.	Estimated through Nov. 2013. Actual data will be available for year 2 and a true-up will occur.
Jan. 2014		True-up of Nov. 2012 costs and any other true-up for year 3 if needed.	Actual data will be available for year 3 and a true-up will occur.	Actual data will be available for year 3 and a true-up will occur.

11. The mechanism and annual recovery proceeding is further described below.

PROGRAMS

12. The Parties agree to recommend that the Commission approve SCE&G's energy efficiency programs as proposed in the Company's application and described in its testimony as modified herein.

13. SCE&G agrees to present for review and comment by the Advisory Group provided for below a low-income program to be implemented in program year two or year three. In developing the low-income program for presentation, consideration will be given to low-income programs currently being administered by non-utility entities and funded by Federal dollars. The Parties agree that the low-income program(s) shall not supplant any existing low-income program available to the Company's customers but shall complement and build on any such program. The Parties agree and understand that a low-income program may not pass the Total Resource Cost Test and that such a result shall not prevent the implementation of the program.

14. As part of its portfolio of DSM programs, SCE&G also seeks approval of a program entitled "Residential Energy Information Display." Through this program the Company will provide customers with a discounted in-home display which will provide a variety of metrics, including the current price of energy being consumed by the consumer in their home, the cost of energy used in the current month and the variance in cost relative to an energy budget. After receiving Commission approval to implement this program and prior to mass marketing to all its residential customers, SCE&G plans to begin an initial implementation of this DSM program. Under the initial implementation, the Company will provide certain residential customers with an in-home display unit. In order to obtain additional information concerning this DSM program, SCE&G hereby agrees to expand its initial implementation to include additional customers who will be selected from the Company's small general service class of customers. Based upon the results of the initial implementation, SCE&G will consider in good faith the feasibility of renaming and expanding the program to include its small general service class of customers.

EVALUATION, MEASUREMENT AND VERIFICATION

15. The Parties agree that no later than thirty (30) days prior to the initial date of making programs available to the public, SCE&G will submit an evaluation, measurement and verification (“EM&V”) plan for its programs and measures to the Parties for review and comment. The EM&V plan will set forth industry-accepted program evaluation protocols to allow for an accurate determination of program costs and benefits, including a provision that evaluations be conducted in each program year, unless otherwise agreed upon by ORS and SCE&G, in order to ensure the sound design, delivery and continuous improvement of programs. The EM&V plan will reflect an industry-accepted term of measurement and evaluation for each program. The Parties will provide written comments concerning the EM&V plan to SCE&G within fifteen days of submission of the plan.

16. The Parties agree that the EM&V plan will provide for evaluation, measurement and verification to be conducted either: (1) by an independent third party evaluator selected by SCE&G after review with ORS or (2) at ORS’s election and with SCE&G’s agreement all or part of the evaluation may be conducted by ORS.

17. If the Parties are unable to agree regarding the provisions and terms of the EM&V plan, the Parties agree that any Party may petition the Commission for a hearing to present testimony regarding the EM&V plan so that the Commission may resolve any dispute and order the implementation of the EM&V plan in accordance with the provisions and terms as determined by the Commission.

18. EM&V results are due no later than six months after each reporting period, unless otherwise agreed upon by ORS and SCE&G.

PROGRAM COSTS

19. Pursuant to S.C. Code Ann. §58-37-20, SCE&G shall be allowed to recover its program costs by means of a rate rider which shall be reviewed, and adjusted in each annual recovery proceeding.

20. SCE&G shall be allowed to defer and amortize into the rate rider calculation all prudently incurred costs for the programs implemented in conformity with this Settlement Agreement and the terms of the Commission's order in this proceeding over five years with carrying costs at the Company's weighted average cost of capital.

NET LOST REVENUES

21. As contemplated by S.C. Code Ann. §58-37-20, net lost revenues will be calculated and presented for review and recovery through the rate rider during each annual recovery proceeding.

22. Net lost revenues are defined as retail revenue losses incurred as a result of lost retail sales due to SCE&G's new energy efficiency measures, net of fuel and other variable operation and maintenance costs.

23. Net lost revenues shall be calculated as follows:

Net Lost Revenues for Each Customer Class

Net Lost Revenues for Each Customer Class (\$) = Program-Related Energy Savings for that Class (kWh) x (average retail rate by customer class – average fuel component – variable operation and maintenance costs per customer class)

Total Net Lost Revenues

Total Net Lost Revenues (\$) = Summation of the Net Lost Revenues for Each Customer Class

24. Until EM&V results become available, net lost revenues will be based on projections in the annual filing. After EM&V results becomes available, projected net lost

revenues shall be included in the annual filing and trued-up for the time period since the last annual filing with actual net lost revenues.

25. Net lost revenues shall not include interest or carrying costs added to the calculation of the Company's annual rider.

26. Recovery through the rate rider of net lost revenues pertaining to a group of measures adopted by customers in prior program years shall cease upon the implementation of new retail electric rates in a general rate case proceeding to the extent that those new rates explicitly or implicitly allow the Company to recover the net lost revenues associated with the implementation of those measures in those prior periods.

27. In each annual filing, SCE&G shall set forth the calculations used to derive the projected and actual net lost revenues.

28. Net lost revenues shall not be recovered through the rate rider for research and development activities and programs whose primary purpose is that of promoting general awareness and education concerning energy efficiency and not the implementation of specific measures.

INCENTIVE

29. As authorized by S.C. Code Ann. §58-37-20, and unless otherwise noted in this Agreement or agreed to by the Parties, the rate rider shall include a shared savings incentive equal to 6% multiplied by the estimated net benefits of each energy efficiency program calculated using the Utility Cost Test. A shared savings incentive of 6% for the Company provides customers with 94% of the program net benefits. The incentive earned by the Company will be amortized over five years without interest or carrying costs and added to the calculation of the Company's annual rider.

30. Estimated net program benefits shall be calculated as follows:

Est. Net Benefits (\$) = NPV[# of units x [(kWh savings (kWh/unit) x avoided costs (\$/kWh)) + (kW savings (kW/unit) x avoided costs (\$/kW))] – utility program costs (\$)]¹

NPV = Net Present Value

kWh = kilowatt hours

kW = kilowatts

31. Actual net program benefits will be based on EM&V program savings results that have been verified in accordance with industry-accepted protocols, and shall be calculated by multiplying the verified kWh and kilowatts (“kW”) savings over the measurement unit’s life by the annual per kWh and kW avoided costs used in calculating the initial incentive, subtracting the actual year program costs over the measurement unit’s life related to installations in that year and discounting the result to present value.

32. The per kW avoided capacity costs and per kWh avoided energy costs used to calculate program net benefits for a program year shall be determined annually. Net present value calculations will reflect the Company’s cost of capital based on: (1) the most recent Commission-approved return on equity; (2) the Company’s current cost of debt; and (3) the Company’s current debt and equity ratios.

33. Until EM&V results become available, the incentive in the annual filings will be based on estimated net program benefits using data from the South Carolina Measures Library when available. After EM&V results become available, true-ups will occur during the annual filings between the estimated and actual net program benefits so that the incentive ultimately to be recovered for a given program year is based on the actual net program benefits derived from EM&V results. The true-up shall include all measurement units specific to the program and shall

¹ For the Commercial and Industrial Custom Program, eligible energy efficiency measures will include measures beyond those included in the South Carolina DSM Energy Savings Library.

cover the time period since the last annual filing. No interest or carrying costs are allowed for the incentive true-up.

34. In each annual filing, SCE&G shall indicate for each program for which it desires an incentive, the calculations used to derive the estimated and actual net program benefits.

35. Incentives shall not be recovered through the rate rider for programs related to research and development activities and programs with the primary purpose of promoting general awareness and education only and which do not involve the implementation of specific measures. The Commission shall determine whether new demand response programs may be eligible for an incentive and at what level.

POTENTIAL STUDY

36. The Parties agree that by November 1, 2010, SCE&G will prepare and present to ORS, SCCCL, SELC, Frank Knapp, and the Advisory Group for review and comment a study of the energy efficiency potential for SCE&G's service territory with a forecast review period that conforms to the Integrated Resource Plan requirements. Upon request, SCE&G agrees to provide to the signatories of this Settlement Agreement all supporting documentation, assumptions and analysis used in conducting its potential study. The Company will retain a consultant to prepare the study, which will include estimates of the following:

- a. **Technical potential** which is the theoretical maximum amount of energy use that could be displaced by efficiency, disregarding all non-engineering constraints such as cost-effectiveness and the willingness of end-users to adopt the efficiency measures. It is often estimated as a "snapshot" in time assuming immediate implementation of all technologically feasible energy saving measures, with additional efficiency opportunities assumed as they arise from activities such as new construction.

- b. **Economic potential** which refers to the subset of the technical potential that is economically cost-effective as compared to conventional supply-side energy resources. Both technical and economic potential are theoretical numbers that assume immediate implementation of efficiency measures, with no regard for the gradual “ramping up” process of real-life programs. In addition, they ignore market barriers to ensuring actual implementation of efficiency. Finally, they only consider the costs of efficiency measures themselves, ignoring any programmatic costs (e.g., marketing, analysis, administration) that would be necessary to capture them.
- c. **Achievable potential** which is the amount of energy use that efficiency can realistically be expected to displace assuming the most aggressive program scenario possible (e.g., providing end-users with payments for the entire incremental cost of more efficiency equipment). This is often referred to as maximum achievable potential. Achievable potential takes into account real-world barriers to convincing end-users to adopt efficiency measures, the non-measure costs of delivering programs (for administration, marketing, tracking systems, monitoring and evaluation, etc.), and the capability of programs and administrators to ramp up program activity over time.
- d. **Program potential** refers to the efficiency potential possible given specific program funding levels and designs. Often, program potential studies are referred to as “achievable” in contrast to “maximum achievable.” In effect, they estimate the achievable potential from a given set of programs and funding. Program potential studies can consider scenarios ranging from a

single program to a full portfolio of programs. A typical potential study may report a range of results based on different program funding levels.

The cost of the study shall be treated as a program cost subject to recovery under the rate rider. The Company further agrees to consider and evaluate in good faith the results of the potential study, after consultation with the Advisory Group as described below, in its ongoing review of programs and program modifications.

ADVISORY GROUP

37. SCE&G agrees to establish an energy efficiency advisory group (the “Advisory Group”), that at a minimum, will meet three times during the first year, and no less than twice per year thereafter over the three-year program term. During the first year, one of the three meetings will review the EM&V plan. The Company will prepare the data and analysis required to allow a meaningful and appropriate review of its DSM programs and will convene the Advisory Group to review and comment on the programs, and to discuss the other matters indicated below.

38. The Advisory Group shall include ORS and SCE&G, a representative from SELC/CCL, a representative from the South Carolina Small Business Chamber of Commerce as well as a representative from the low-income and industrial sectors. Members agree to participate in the Advisory Group in good faith consistent with mutually agreed-upon ground rules. SCE&G and ORS shall select the initial members of the Advisory Group except that SELC/CCL and the South Carolina Small Business Chamber of Commerce may appoint its own respective representative.

39. The role of the Advisory Group is to consider and make recommendations to SCE&G with respect to efficiency potential studies, new program ideas, modifications to existing programs, outreach and education programs and funding, and EM&V plans.

40. The Advisory Group will review and make recommendations to SCE&G with respect to periodic status reports on program progress, new program ideas and potential markets, modifications to existing programs, EM&V, and revisions or extensions of programs and incentives.

41. The Advisory Group will review and make recommendations to SCE&G with respect to forecasted participation levels in measures and programs and forecasted kW and kWh savings from measures and programs as those forecasts may be revised and updated from time to time.

42. The Company will provide information to the Advisory Group related to its existing and proposed DSM programs in a transparent manner. The Company agrees to prepare and present to the group information on its DSM activities including cost, participation and efficiency/savings data at individual program level detail. The Company will share information concerning both impact and process evaluation of programs, including the EM&V process.

43. At its discretion, the Company may require confidentiality agreements with members who wish to review confidential avoided cost data or any calculations that could be used to determine the avoided cost data. The parties acknowledge the competitive sensitivity of such information and the appropriateness of preventing its public disclosure.

44. Participation in the Advisory Group shall not preclude any party from participating in any utility commission proceedings. To ensure the free and open exchange of information, the parties agree that the advisory process would be considered to be in the nature of a confidential settlement discussion as to issues related to future DSM proceedings only to the extent that statements made or information obtained in the advisory process cannot be used as evidence in any future regulatory or judicial proceedings. However, any member of the Advisory Group who becomes a party in a regulatory or judicial proceeding may use information

and/or documents obtained in the advisory process as evidence in such proceeding if the information and/or documents are also obtained through the course of discovery, informal data requests, or some other exchange of information outside of the advisory process.

REPORTS

45. SCE&G agrees to file with its annual incentive recovery filing information consistent with the direct testimony of ORS witness Randy Gunn as previously pre-filed in the record of this docket.

46. SCE&G agrees to file a comprehensive report by the end of the second quarter of the third program year or as mutually agreed to by the parties consistent with the direct testimony of ORS witness Randy Gunn as previously pre-filed in the record of this docket

REMAINING TERMS AND CONDITIONS

47. The mechanism for the incentive, costs and net lost revenues calculation and the Rider to Retail Rates tariff sheet are attached as Exhibit 1 and Exhibit 2, respectively, to this Settlement Agreement.

48. SCE&G agrees to file sufficient data in the annual recovery proceedings to support the calculations of the incentive, program costs and net lost revenues.

49. The Parties agree the procedures set forth in this Settlement Agreement shall be evaluated during the first quarter of 2012 and any proposed changes will be submitted to the Commission for approval by the beginning of the fourth quarter of the third year of implementation.

50. The Parties do not object to the implementation of programs as set forth in SCE&G's Application, subject to the terms and conditions set forth in this Settlement Agreement, and agree that all aspects of SCE&G's Application, not otherwise addressed in this Settlement Agreement, should be approved as filed.

51. The Parties agree that this Settlement Agreement is reasonable, in the public interest and in accordance with law and regulatory policy.

52. ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (Supp. 2008). S.C. Code §58-4-10(B)(1) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) Concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) Economic development and job attraction and retention in South Carolina; and
- (3) Preservation of the financial integrity of the State’s public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.”

53. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable resolution of the issues between them. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

54. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. The Parties agree that this Settlement Agreement will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will the Settlement Agreement or any of the matters agreed to in it be used as evidence or precedent in any future proceeding. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

55. This Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing his or her signature or authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the Settlement Agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[Signature pages to follow]

WE AGREE:

Representing and binding the South Carolina Office of Regulatory Staff

Shannon Bowyer Hudson

Nanette S. Edwards, Esquire

Shannon Bowyer Hudson, Esquire

South Carolina Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, SC 29201

Phone: (803) 737-0889

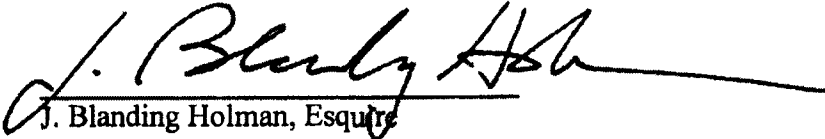
Fax: (803) 737-0895

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WE AGREE:

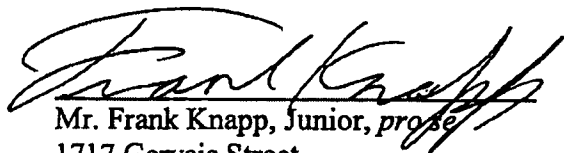
**Representing and binding the South Carolina Coastal Conservation League and the
Southern Environmental Law Center**

A handwritten signature in black ink, appearing to read "J. Blanding Holman", is written over a horizontal line.

J. Blanding Holman, Esquire
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I AGREE:

A handwritten signature in black ink, appearing to read "Frank Knapp, Jr.", with a stylized, cursive script.

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WE AGREE:

Representing and binding South Carolina Electric & Gas Company



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Recovery of DSM Expenses, Shared Savings Incentive and Lost Net Margin Revenue

1. Overview

This Exhibit provides a description of how South Carolina Electric & Gas Company ("SCE&G" or the "Company") proposes to recover its Demand Side Management ("DSM") expenses, shared savings incentive and lost net margin revenue using a rate rider applicable to retail electric service. As described below, the rate rider will consist of a charge per kilowatt hour ("KWH") and will be specifically calculated for each customer class. The rider will be set at a level sufficient to recover:

- a. DSM program expenses and overheads amortized over five years,
- b. A shared savings incentive of 6% amortized over five years, and
- c. Lost net margin revenue forecasted to occur as a result of the DSM programs reducing demand charges and megawatt hour ("MWH") sales between each retail electric rate case.

In establishing the amount of revenue to be recovered under the rate rider, the amount of lost net margin revenue will be forecasted by customer class on an annual basis using data for market penetration for each DSM measure. Any difference between the prior year's forecasted amount and the amount calculated based on actual market penetration and/or Evaluation, Measurement and Verification ("EM&V") results during the year will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the prospective review period.

2. Annual Adjustment

The rates for each customer class will be recalculated and adjusted annually. Each year, on or about January 31st, the Company proposes to file the rate adjustments for each customer class with the Commission. The Company would not implement the proposed adjustments until at least three months after filing to allow for public comment and any review of the filing that the Commission might deem appropriate. The Company proposes that the initial review period run from the effective date of the rate rider proposed in this docket to November 30, 2010. Thereafter, the Company proposes an annual review period of December 1st through November 30th, provided that SCE&G must notify the Commission and ORS in writing prior to any change or adjustment in the review period.

3. The Regulatory Asset Account for DSM Expenses.

- a. DSM expenses shall include all costs of formulating, administering, publicizing, delivering, measuring, tracking and analyzing DSM programs, including administrative and general costs and overheads, legal and consulting costs, costs of advertising and promotion, training and recruitment costs, costs of incentives and payments to third parties, costs of resolving or settling claims and disputes, and other costs related to these programs. SCE&G will create a regulatory asset on its books for DSM expenses ("DSM Account").
- b. As DSM expenses are recognized, they will be booked as a debit to the DSM Account.
- c. SCE&G will credit the DSM account monthly to reflect the 5-year amortization recovery of covered DSM expenses.

4. Program Cost, Lost Net Margin Revenue and Incentive Recovery

The DSM expenses, shared savings incentive and lost net margin revenue will be calculated and recovered under the rate rider as follows:

a. Calculation of Lost Net Margin Revenue

Lost net margin revenue will be calculated for each prospective review period based on the forecasted level of customer participation in each DSM measure. Lost net margin revenue will reflect the reduction in demand charges and MWH sales that are calculated to occur as a result of customer participation in each DSM measure exclusive of the reductions that would have happened in the absence of the measures. The reductions in MWH sales will be computed using the data contained in the then-current version of the South Carolina Measures Library Database ("Measures Database")¹ or such successor data source as the Company may reasonably designate, supplemented as required where data not found in the database is needed to make the necessary calculations, all as updated or replaced by new EM&V results as they are generated. Margin revenue will equal electric revenue by rate schedule less fuel costs and variable operation and maintenance costs and will be computed on a per KWH basis.

Lost net margin revenue associated with the upcoming period will be calculated based on

¹ In 2008 Morgan Marketing Partners ("MMP") was retained jointly by SCE&G, Duke Energy, Progress Energy and Santee Cooper to develop a "Measures Database" of technologies and building simulations that would provide estimates of energy and demand impacts related to numerous DSM measures. MMP had developed a similar DSM Measures Database for North Carolina. The scope of the work included four weather stations, ten commercial building types and sixteen configurations of new and existing residential homes. MMP and its subcontractors, Franklin Energy Services, Integral Analytics Inc. and Building Metrics Inc., developed the Measures Database and MMP provided it in its final form to SCE&G in 2009.

forecasted participation rates. At the end of each review period, the lost net margin revenue for that review period will be recalculated using actual market penetration data and updated demand and energy savings data generated as a result of new EM&V results. In making these recalculations, actual penetration rates will be converted to reductions in MWH sales using data contained in the applicable Measures Database or new or updated EM&V data. Any differences in the calculation of forecasted lost net margin revenue to actual will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the prospective review period. The Company will track the difference between actual lost revenue and forecasted lost revenue in a separate regulatory asset or liability account.

b. Resetting of Lost Net Margin Revenue

The amounts reflected in the rate rider for lost net margin revenue will be reset each time the Company implements new retail electric rates as a result of a general retail electric rate case. Upon implementation of the new retail electric rates, the charges to be collected under the rider will be recalculated to reflect the fact that under standard rate making methodologies the lost net contribution to margin revenue as of the end of the test period will be reflected in the new rates being set.

In recalculating the revenue requirement to be collected under the rider after new electric rates are ordered, the existing revenue requirement being collected under the rider will be reduced by the lost net margin revenue forecasted as of the close of the test year. This amount will be calculated to equal the participation rates for DSM measures at the close of the test period multiplied by the KWH savings per participant reflected in the applicable DSM Measures Database for that measure.

Additional lost net margin revenue will occur as new participants are enrolled in the DSM programs after the close of the test period. The additional lost net margin revenue will not be deducted from the revenue requirement to be recovered through the rider. Adjustments in the rider associated with the implementation of new retail rates will not change the schedule for annual reviews of the rider.

c. Calculation of the Amount to Be Recovered by the Rate Rider

The amount of DSM expenses, shared savings incentive and lost net margin revenue to be recovered through the rider shall be computed as follows.

- i. **Amortization of DSM Regulatory Asset** - SCE&G will amortize, over five (5) years, the balance held in the DSM Account at the close of each review period.
- ii. **Shared Saving Incentive** - SCE&G will include an incentive return computed under the terms of the Settlement Agreement between SCE&G, the Office of Regulatory Staff and other parties.
- iii. **Lost Net Margin Revenue** - Lost net margin revenue for the review period, computed as described above, and including any adjustment for

the prior period, will be included in the revenue requirement to be recovered.

d. Allocation of Revenue Requirement

SCE&G will track participation in DSM programs by customer class. SCE&G will assign direct DSM program costs and lost net margin revenue accordingly. General and administrative costs and other indirect DSM costs will be allocated to customer classes in the same proportions that direct costs are allocated, unless the Company identifies a specific justification to do otherwise. SCE&G will also track receipts under the DSM rider by customer class. Rider adjustments will be made based on these allocations.

SOUTH CAROLINA ELECTRIC & GAS COMPANY

ELECTRICITY

RIDER TO RETAIL RATES

DEMAND SIDE MANAGEMENT COMPONENT

(Page 1 of 2)

APPLICABILITY

Service supplied under the Company's retail electric rate schedules is subject to approved Demand Side Management (DSM) program cost adjustments. The rates shown below are applicable to and a part of the Company's South Carolina retail electric rate schedules and included in the monthly rate provision of the applicable schedule used in billing and shall therefore be added to customer's monthly bill statement:

DSM RATES BY CLASS (\$/kWh)

<u>Customer Class</u>	<u>DSM Factors</u>
Residential	0.00026
Small General Service	0.00032
Medium General Service	0.00011
Large General Service	0.00003

DERIVATION OF FACTORS

Demand Side Management costs to be recovered in an amount rounded to the nearest one-thousandth of a cent per kilowatt-hour, will be determined by the following formula:

$$A = D / S$$

A = Customer Class Specific DSM Program Costs Rate Adjustment per kilowatt-hour applied to base rates rounded to the nearest one-thousandth of a cent.

D = DSM revenue requirement for the period calculated as (C + L + R)

Where:

C = One year of Amortization Expense (based upon the balance of DSM Program Costs at the beginning of the annual review period) plus associated Carrying Costs (calculated using the Company's Weighted Average Cost of Capital)

L = Net Lost Revenues for each customer class based on forecasted retail kWh sales reductions attributable to DSM programs. Revenue lost would be calculated using the average rate per customer class less the class specific fuel component and variable O&M. The resulting factor would then be multiplied by the kWh sales lost for each class of customers. This amount will be "trued-up" for the actual impact on prior year sales.

R = One year of amortization of DSM Program Incentive to be calculated by multiplying the estimated Net Present Value Benefit of each energy efficiency program as determined by the Utility Cost Test times 6%.

S = Projected customer class specific sales, defined as retail kilowatt-hour sales from each class of customers for the current period, less sales from customers who have been approved for opt-out status.

The appropriate revenue-related tax factor is to be included in these calculations.

"OPT-OUT" PROVISION

1. Industrial customers as defined in Rate 23 are eligible to opt-out of DSM programs and costs.
2. Customers wishing to opt-out of DSM programs and recovery of DSM costs shall file a writing with the Company on a form provided by the Company representing that they have already implemented or will be implementing alternative DSM programs. Certifications shall be valid until withdrawn. If a Customer should choose to participate in one or more DSM programs for any account, then such Customer will not be permitted to opt-out of DSM programs and recovery of DSM costs for that account for a period of five years.

SOUTH CAROLINA ELECTRIC & GAS COMPANY

ELECTRICITY

RIDER TO RETAIL RATES**DEMAND SIDE MANAGEMENT COMPONENT**

(Page 2 of 2)

3. Customers who opt-out but later elect to participate in one of the Company's programs may do so upon application to the Company. If acceptable to the Company, the Customer may participate in the Company's programs, but may not apply to opt-out again for a period at least as long as the amortization period.

Since DSM charges are included and a part of retail rates, customers qualifying for the opt-out provision shall receive the following DSM Credit on their monthly bill statement:

$$\text{DSM Credit} = \text{Billed kWh times the applicable DSM Rate}^*$$

* The DSM Rate shall be as shown in the above table for the schedule applicable to Customer's monthly bill.

DEFINITIONS

1. Annual Review Period - The period of time between December 1 and November 30.
2. Amortization Period - The five-year period of time which the Company's DSM measures, program costs and incentive are deferred and amortized.
3. Customer Class - The Company's classification of customers based on similar energy usage characteristics. These are defined as follows:

Residential:

Rate 1 (RGC) – Good Cents Rate, Rate 2 – Low Use Residential Service, Rate 5 - Residential Service Time-of-Use, Rate 6 (RGCC) – Energy Saver / Conservation Rate, Rate 7 – Residential Service Time-Of-Use Demand, Rate 8 – Residential Service

Small General Service:

Rate 3 (M) – Municipal Power Service, Rate 9 – General Service, Rate 10 – Small Construction Service, Rate 11 – Irrigation Service, Rate 12 (C) – Church Service, Rate 13 (ML) – Municipal Service, Rate 14 – Farm Service, Rate 16 – General Service Time-Of-Use, Rate 22 (S) – School Service, Rate 28 – Small General Service Time-Of-Use Demand

Medium General Service:

Rate 19 – General Service Concurrent Demand Time-Of-Use, Rate 20 – Medium General Service, Rate 21 – General Service Time-Of-Use Demand, Rate 21A – Experimental Program - General Service Time-Of-Use Demand

Large General Service:

Rate 23 – Industrial Power Service, Rate 24 – Large General Service Time-Of-Use, Rate 27 - Large Power Service Real Time Pricing (Experimental)

SALES AND FRANCHISE TAX

To the above will be added any applicable sales tax, franchise fee or business license tax which may be assessed by any state or local governmental body.

PAYMENT TERMS

All bills are net and payable when rendered.

TERM OF CONTRACT

The contract terms will be the same as those incorporated in the rate tariff under which customer receives electric service.

GENERAL TERMS AND CONDITIONS

The Company's General Terms and Conditions are incorporated by reference and form a part of this rider.

Effective Upon Approval by the
Public Service Commission of South Carolina

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2009-261-E

MARCH 31, 2010

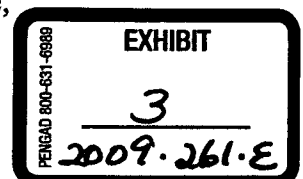
IN RE:)	
)	
South Carolina Electric & Gas Company)	
Request for Approval of Demand Side)	SETTLEMENT AGREEMENT
Management Plan Including a Demand Side)	
Management Rate Rider and Portfolio of)	
Energy Efficiency Programs)	
)	

This Settlement Agreement is made by and among South Carolina Energy Users Committee ("SCEUC"); CMC Steel South Carolina ("CMC Steel"), the South Carolina Office of Regulatory Staff ("ORS"), and South Carolina Electric & Gas Company ("SCE&G") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the Public Service Commission of South Carolina ("Commission") opened this docket to consider the application of SCE&G ("Application") on June 30, 2009 to: (i) consider the results of SCE&G's analysis of potential demand reduction and energy efficiency ("Demand Side Management" or "DSM") offerings, (ii) to review SCE&G's proposed suite of DSM programs, and (iii) to review an annual rider to allow recovery of SCE&G's costs and lost net margin revenue associated with its DSM programs along with appropriate incentives for investing in such programs;

WHEREAS, S.C. Code Ann. § 58-37-20 states:

The South Carolina Public Service Commission may adopt procedures that encourage electrical utilities and public utilities providing gas services subject to the jurisdiction of the commission to invest in cost-effective energy efficient technologies and energy conservation programs. If adopted, these procedures must: provide incentives and cost recovery for energy suppliers and distributors who invest in energy supply and end-use technologies that are cost-effective,



environmentally acceptable, and reduce energy consumption or demand; allow energy suppliers and distributors to recover costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction of new generating facilities; require the Public Service Commission to establish rates and charges that ensure that the net income of an electrical or gas utility regulated by the commission after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

WHEREAS, the Commission allowed for public comment and intervention in the above-captioned docket;

WHEREAS, SCEUC, CMC Steel, South Carolina Coastal Conservation League ("SCCCL"), Southern Environmental Law Center ("SELC"), Friends of the Earth ("FOE"), and Mr. Frank Knapp, Jr. (collectively "Intervenors") made timely requests to intervene;

WHEREAS, the South Carolina Office of Regulatory Staff ("ORS") is also a party of record in this proceeding pursuant to its statutory authority;

WHEREAS, SCE&G, ORS, SCEUC, CMC Steel, SELC, and SCCCL pre-filed testimony in this docket;

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket. The remaining parties of record in the above-captioned proceeding are not parties to this agreement;

WHEREAS, the Parties have engaged in discussions to determine if a Settlement Agreement would be in their best interest;

WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by agreeing to certain matters in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the direct and rebuttal testimony and exhibits of the following six (6) witnesses without objection, change,

amendment or cross-examination with the exception of changes comparable to those which would be presented via an errata sheet or through a witness noting a correction.

SCE&G witnesses:

- a. Felicia Howard
- b. Kenneth Jackson
- c. Scott Wilson
- d. David Pickles

ORS witnesses:

- e. Randy Gunn
- f. Christina Seale

The Parties agree that Christina Seale and Scott Wilson need not testify in person at the hearing unless requested by the Commission.

2. The Parties agree to stipulate into the record before the Commission the revised direct testimony and exhibits of SCEUC witness Kevin O'Donnell as attached hereto as Exhibit A, without objection, change, amendment or cross-examination with the exception of changes comparable to those which would be presented via an errata sheet or through a witness noting a correction. The prefiled testimony of CMC Steel witness Dennis Goins, Ph.D. will not be offered into evidence in this proceeding.

3. The Parties agree that SCE&G and ORS are permitted to reach and file settlements with other parties in this proceeding. SCE&G is permitted to provide testimony of Kenneth Jackson and David Pickles in support of the terms of this Settlement Agreement.

4. Except as set forth herein, the Parties agree that no other evidence will be offered in the proceeding by the Parties other than the stipulated testimony and exhibits identified above and the supporting testimony of witnesses Jackson and Pickles. SCE&G reserves the right to engage in cross-examination of witnesses to support the reasonableness of the provisions of this Settlement Agreement, and all Parties reserve the right to redirect examination of witnesses as

necessary to respond to issues raised by the examination of their witnesses, if any, by non-Parties, or to any late-filed testimony. SCE&G and ORS also reserve the right to present testimony in support of any settlement agreement(s) reached with any other parties in this proceeding, as long as such testimony is not inconsistent with the provisions of this Settlement Agreement.

OPT-OUT PROVISIONS FOR INDUSTRIAL CUSTOMERS

5. The Parties agree that all industrial customer accounts may opt-out of the DSM and Energy Efficiency/Demand Response programs and costs at issue in this docket by notifying SCE&G in writing that the customer has implemented or will implement alternative DSM and Energy Efficiency/Demand Response programs at its own expense and does not wish to participate in SCE&G's program. Such notification shall be fully sufficient on its face to effectuate the opt-out. An industrial customer's opt-out for any of its accounts with SCE&G for electric service shall be made on a form provided by SCE&G and shall be effective on and after the date that such form is received by SCE&G. Only industrial customers are permitted to opt-out of the DSM and Energy Efficiency/Demand Response programs and costs at issue in this docket.

6. The Parties agree that all aspects of SCE&G's Application, not otherwise addressed in this Settlement Agreement, may be approved as filed or as modified by SCE&G in settlement agreements with other parties to the extent that they are not inconsistent with the agreement contained herein permitting industrial customers to opt-out of DSM programs and costs.

7. The Parties agree this Settlement Agreement is reasonable, in the public interest and in accordance with law and regulatory policy.

8. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable resolution of this contained herein. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

9. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. The Parties agree that this Settlement Agreement will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will the Settlement Agreement or any of the matters agreed to in it be used as evidence or precedent in any future proceeding. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

10. This Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing his or her signature or authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[Signature pages to follow]

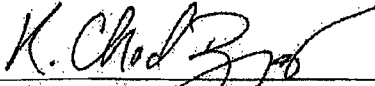
WE AGREE:

Representing and binding South Carolina Energy Users Committee

Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205
Phone: (803) 771-0555
Fax: (803) 771-8010
Email: selliot@elliottlaw.us

WE AGREE:

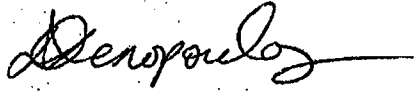
Representing and binding South Carolina Electric & Gas Company



Catherine D. Taylor, Esquire
K. Chad Burgess, Esquire
South Carolina Electric & Gas Company
Mail Code C222
220 Operation Way
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Phone: (803) 217-9356
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WE AGREE:

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WE AGREE:

Representing and binding South Carolina Office of Regulatory Staff

Shannon Bowyer Hudson
Shannon Bowyer Hudson, Esquire

Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, SC 29201

Phone: (803) 737-0889

Fax: (803) 737-0895

Email: shudson@regstaff.sc.gov

Before the
South Carolina Public Service Commission

In Re: South Carolina Electric & Gas)	
Company's Request for Approval of Demand)	
Side Management Plan Including a Demand)	Docket No. 2009-261-E
Side Management Rate Rider and Portfolio)	
Of Energy Efficiency)	

Prepared Direct Testimony

of

Kevin W. O'Donnell, CFA

On Behalf of the

South Carolina Energy Users Committee (SCEUC)

January 7, 2010

**BEFORE THE SOUTH CAROLINA PUBLIC SERVICE
COMMISSION
DOCKET NO. 2009-261-E**

DIRECT TESTIMONY OF KEVIN W. O'DONNELL, CFA

1 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS**
2 **FOR THE RECORD.**

3 A. My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants,
4 Inc. My business address is 1350 Maynard Rd., Suite 101, Cary, North Carolina
5 27511.
6

7 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. I am testifying on behalf of the South Carolina Energy Users Committee
10 (SCEUC), which is a trade association comprised of several large industrial
11 consumers, many of which take electric supply service from South Carolina
12 Electric & Gas.
13

14 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
15 **RELEVANT EMPLOYMENT EXPERIENCE.**

16 A. I have a Bachelor of Science in Civil Engineering from North Carolina State
17 University and a Master of Business Administration from the Florida State
18 University. I have worked in utility regulation since September 1984, when I
19 joined the Public Staff of the North Carolina Utilities Commission (NCUC). I left
20 the NCUC Public Staff in 1991 and have worked continuously in utility
21 consulting since that time, first with Booth & Associates, Inc. (until 1994), then as
22 Director of Retail Rates for the North Carolina Electric Membership Corporation

1 (1994-1995), and since then in my own consulting firm. I have been accepted as
2 an expert witness on rate of return, cost of capital, capital structure, and other
3 regulatory issues in general rate cases, fuel cost proceedings, and other
4 proceedings before the North Carolina Utilities Commission, the South Carolina
5 Public Service Commission (SC PSC), and the Florida Public Service
6 Commission (FL PSC). In 1996, I testified before the U.S. House of
7 Representatives, Committee on Commerce, and Subcommittee on Energy and
8 Power, concerning competition within the electric utility industry. Additional
9 details regarding my education and work experience are set forth in Appendix A
10 to my direct testimony.

11
12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
13 **PROCEEDING?**

14 **A.** The purpose of my testimony in this case is to review the application of SCE&G
15 to impose a rate rider to fund energy efficiency (EE) and demand side
16 management (DSM) programs the Company now wishes to offer customers in its
17 service territory.

18
19 **Q. HOW IS YOUR TESTIMONY STRUCTURED?**

20 **A.** My testimony is structured as follows:

- 21 I. Review of Company Requested Opt-Out Provision for Industrial
22 Consumers;
23 II. Impact of Proposed Rate Rider on SCE&G Industrial Sales;
24 III. Summary of Recommendations
25
26

I. REVIEW OF OPT-OUT PROVISION

Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF HOW THE OPT-OUT PROVISION WILL OPERATE IF THE COMPANY'S APPLICATION IS APPROVED.

A. The requirements that would allow a commercial or industrial customer to opt-out of the rate riders as proposed in this proceeding are quite daunting and cumbersome. First of all, the load size of the customer at a single location must be at least 3500 kW. If a customer has two non-contiguous sites, the load size threshold rises to 6000 kW. This large size requirement will force all but a few industrial customers to participate in SCE&G EE/DSM program and pay the rider as requested by the utility in this proceeding.

If a customer is large enough to meet the above minimum threshold requirements, it must certify in writing that it has performed an energy audit within the past three years and is taking actions that will produce energy and demand savings equivalent to what SCE&G believes will occur under the Company's EE/DSM program. It is inherent in the understanding of the proposed action in this filing that SCE&G would be the sole judge as to whether or not the industrial customer seeking the opt-out is implementing programs that would produce savings equivalent to the estimated SCE&G's EE/DSM energy savings.

The reductions cited by the industrial seeking to opt-out of the EE/DSM programs cannot include any reduction in usage due to on-site generation, co-generation, plant shut downs, a reduction in the normal usage of facilities, shifting production to another site, or "any other" reduction not associated with the result of the energy efficiency projects.

1 In my opinion, the Company's proposed restrictive opt-out provisions are grossly
2 inequitable to commercial/industrial consumers and should be denied by the
3 Commission. My recommendation is that all industrial consumers, the definition
4 of which is classified as a "manufacturing industry" by the Standard Industrial
5 Classification Manual, be allowed to opt-out of SCE&G's EE/DSM program by
6 sending a letter to the utility stating that it has implemented or plans to
7 implement, alternative EE/DSM measures.

8
9 **Q. WHY DOES THE COMPANY SEEK SUCH RESTRICTIVE OPT-OUT**
10 **PROVISIONS FOR COMMERCIAL AND INDUSTRIAL CUSTOMERS**
11 **AS PART OF THIS APPLICATION?**

12 **A.** According to Company Witness Jackson, SCE&G believes that these opt-out
13 provisions are necessary so that "the DSM costs that they (commercial and
14 industrial consumers) avoid are shifted to the customers that remain subject to the
15 rider." In my opinion, this statement belies the real reason for the restrictive opt-
16 out provisions that are a part of this application.

17
18 **Q. IN YOUR OPINION, WHAT IS THE REAL REASON THAT THE**
19 **COMPANY IS SEEKING THESE RESTRICTIVE OPT-OUT**
20 **PROVISIONS?**

21 **A.** The Company wants few customers to opt-out of its EE/DSM programs so that it
22 can maximize its own profits associated with this initiative.

23
24 SCE&G has requested a 3% adder to be placed on top of its current allowed
25 return on equity of 11%. As such, the utility is herein seeking Commission
26 approval for programs in which it will earn substantially more money on its
27 investments than it can earn from normal utility operations. Hence, the utility has
28 an incentive to force as many customers as possible to pay for the rate rider from
29 which it can generate profits as much as a 14% return on equity. As I have

1 discussed previously, SCE&G's application will not reduce energy consumption,
2 but it will produce significant profits for the utility.
3

4 **Q. HOW ENERGY CONSCIOUS ARE INDUSTRIAL CONSUMERS?**

5 A Manufacturers today have been operating in international competitive markets for
6 many years. As a result of this intense competition, manufacturers have been
7 forced to become very aware of their energy consumption, as well as every other
8 operating cost. There are very little, if any, stones unturned in today's
9 manufacturing environment. Cost containment is an ongoing and constant
10 process required for sheer survival. Unlike utilities that have captive markets,
11 manufacturers that do not contain their costs will soon find their market share
12 evaporate and/or their factory jobs shipped overseas where labor is cheap and
13 abundant.
14
15

16 **Q. DO YOU BELIEVE THAT INDUSTRIAL CONSUMERS NEED ANY**
17 **ADDITIONAL ENCOURAGEMENT OR INCENTIVE TO ENGAGE IN**
18 **EE/DSM ACTIVITIES IN ORDER TO BE ALLOWED TO OPT-OUT OF**
19 **THE COMPANY'S PROPOSALS IN THIS CASE?**

20 A. The Company's misconception in this case is that it apparently believes that
21 manufacturers in South Carolina are not constantly examining ways to cut costs
22 and preserve jobs in the state. Such a presumption is simply wrong.
23

24 Intense competition has forced manufacturers to actively seek every possible way
25 to cut costs and stay in business. It is very likely that manufacturers have already
26 implemented energy efficiency measures that have created ongoing energy
27 efficiency savings that may easily eclipse anything that SCE&G is proposing in
28 the current application. If manufacturers are now forced to participate in
29 SCE&G's EE/DSM programs after they have already completed past energy

1 efficiency projects, they will essentially be "double-dipped" on energy efficiency
2 costs.

3
4 **Q. PLEASE EXPLAIN HOW MANUFACTURERS WILL BE "DOUBLE**
5 **DIPPED" BY SCE&G'S PROPOSALS IN THIS CASE.**

6 **A.** An industrial consumer that is still operating today has already reviewed its
7 operating costs in-detail and implemented economically viable energy efficiency
8 projects. Hence, these customers have already incurred substantial costs to be as
9 energy efficient as is economically justified.

10
11 If SCE&G is successful in its request in this proceeding, the manufacturers that
12 invested in past energy efficiency projects will be required to pay for energy
13 efficiency projects for other customers, some of them against whom they may
14 actually be competing. In essence, industrials that have already completed energy
15 efficiency projects have reduced SCE&G's load in the past and, as a result,
16 subsidized customers in the past and will, once again, subsidize other SCE&G
17 customers that, heretofore, have not completed any energy efficiency projects.

18
19 **Q. WHAT OTHER DETAILS WITHIN THE COMPANY'S OPT-OUT**
20 **PROVISION DO YOU FIND OBJECTIONABLE?**

21 **A.** SCE&G's attempt to isolate energy efficiency savings by eliminating plant
22 closings, cogeneration activities, and slowdowns is certainly understandable.
23 However, this attempt to isolate energy efficiency may inadvertently negate some
24 industrial activities that may, by their nature, maximize energy efficiency for the
25 entire plant. An example would be a plant expansion that produces waste heat as a
26 byproduct that, in turn, can be used in the production of electricity that would
27 decrease the consumption of the manufacturer. Given the details as outlined by
28 the Company in its application, the above scenario would be deemed to be in

1 violation of the strict guidelines of the opt-out provision as requested by the
2 Company it is application.

3
4 As proposed in its application, the SCE&G proposal may result in less energy
5 efficiency than is sought by the Company due to the lack of foresight by the
6 Company in the derivation of the proposed tariff.

7
8 The language of SCE&G's opt-out provision creates a tremendous conflict of
9 interest for the utility and is bound to create a highly contentious atmosphere
10 between itself and its customers. If this program is approved by the Commission,
11 the PSC may soon get flooded with complaints from manufacturers that are at
12 odds with the Company on the opt-out issue.

13
14 **Q. PLEASE EXPLAIN WHY YOU BELIEVE THE COMPANY'S OPT-OUT**
15 **PROPOSALS CREATE A CONFLICT OF INTEREST FOR THE**
16 **COMPANY IN ITS RELATIONS WITH ITS CUSTOMERS.**

17 **A.** SCE&G is proposing in this case that manufacturers submit certified letters to the
18 utility showing that its ongoing energy efficiency activities produce results equal
19 to the estimated SCE&G energy efficiency programs. However, SCE&G is
20 seeking to earn a profit incentive on its own EE/DSM programs. By being the sole
21 judge of the energy efficiency activities of its customers, the Company has an
22 incentive to deny opt-out requests of manufacturing customers so that it can
23 maximize its own profits via its EE/DSM tariff. This proposal of the Company to
24 be the sole judge on the issue of the opt-out creates a tremendous conflict of
25 interest that, in my opinion, should not be allowed by the Commission.

26
27 **Q. WHAT CHANGES DO YOU PROPOSE WITHIN THE OPT-OUT**
28 **PROVISIONS SOUGHT BY SCE&G IN THIS PROCEEDING?**

1 A. The timing of SCE&G's proposals in this case simply could not have been worse.
2 The Commission is well aware of the fact that the entire country is in the midst of
3 a terrible economic recession. This proposed rate rider by SCE&G is a new
4 expense to manufacturers at a time when South Carolina manufacturers are
5 struggling to keep their doors open and South Carolinians employed.

6
7 In addition, the Company's application in the current proceeding is the first of
8 four rate proceedings involving SCE&G in 2010. In addition to this EE/DSM
9 application, the Company is expected to file a fuel case, a rate case, and a revised
10 rate proceeding under the Base Load Review Act (BLRA) in 2010. SCE&G
11 ratepayers are simply overloaded with the many rate requests of SCE&G in 2010
12 and should not be asked to pay increased rates for ineffective EE/DSM programs.

13
14 My recommendation to this Commission is that manufacturers, as I have defined
15 previously, be allowed to opt-out of the SCE&G's EE/DSM programs and
16 associated rate riders by sending the Company a simple letter stating that it wishes
17 to opt-out of the DSM programs. Manufacturers should not be burdened with the
18 extra task of proving to the utility that its energy efficiency measures produce
19 results satisfactory to SCE&G which, as previously discussed, has an economic
20 incentive to deny the manufacturers request to opt-out.

21
22 Q. **HAVE ANY OTHER SOUTH CAROLINA UTILITIES AGREED TO**
23 **ALLOW ITS CUSTOMERS TO OPT-OUT OF UTILITY SPONSORED**
24 **ENERGY EFFICIENCY/DEMAND SIDE MANAGEMENT PROGRAMS?**

25 A. Yes. Progress Energy (PEC) has also implemented an energy efficiency program
26 that gives manufacturers the right to opt-out. With PEC, all the manufacturer must
27 do to be in compliance is send the utility a letter stating its desire to opt-out of the
28 energy efficiency/demand side management programs. Below is a question and

1 answer statement from the Progress Energy website that discusses PEC's position
2 on the opt-out issue:

3
4 **My company has already made, or is planning to make, a**
5 **number of energy efficiency improvements at our facility. Do**
6 **we have to share in paying for the new DSM/EE programs**
7 **being offered by PEC?**

8
9 South Carolina

10
11 Your facility may be eligible to avoid these charges. Progress
12 Energy has proposed that industrial accounts, of any size, and large
13 commercial accounts, which use more than 1 million kWh's in the
14 prior calendar year, may elect to opt out of participating in the
15 DSM/EE programs and avoid paying the charges if, at their own
16 expense, they have implemented in the past or plan to implement
17 in the future, alternative DSM/EE measures in accordance with
18 stated, quantifiable goals. For purposes of applying this option, a
19 customer is defined to be a metered account billed under a single
20 application of a Company rate tariff. For commercial accounts,
21 once one account meets the opt-out eligibility requirement, all
22 other accounts billed to the same entity with lesser annual usage
23 located on the same or contiguous property are also eligible to opt-
24 out.

25
26 Progress Energy's website goes further and provides direct instructions to
27 manufacturers about exactly how to opt-out of the energy efficiency/demand side
28 management programs. Below are two questions and answers from the PEC
29 website that provide customers with details on how to opt-out.

30
31 **What do I have to do to opt out?**

32
33 Customers must notify their electric utility in writing of their
34 request to opt out of participating in the DSM/EE programs and
35 provide a list of the specific eligible customer account numbers.
36 The written request must state that the account(s), at their own
37 expense, have either implemented in the past or plan to implement
38 in the future, alternative DSM/EE measures in accordance with
39 stated, quantifiable goals.

1
2
3 **Can I opt out now and then decide later to participate in one of**
4 **PEC's DSM/EE programs?**
5

6 Yes. A customer who initially opts out may subsequently elect to
7 participate in one or more specific new DSM/EE programs being
8 offered by PEC. However, any customer who elects to participate
9 in a new DSM/EE program loses the right to be exempt from
10 payment of the DSM/EE charges for ten years.
11

12 **Where do I send my request to opt out?**
13

14 An opt out letter template is provided for your convenience on this
15 web site. You may download this template or print and complete
16 the template form. The completed letter should be signed by a
17 person in your company who has the authority to execute contracts
18 and then mailed to the following address:
19

20
21 Progress Energy Carolinas, Inc.
22 CSC - CIGS Team
23 PO Box 1771
24 Raleigh, NC 27602
25

26 Source: [http://progress-](http://progress-energy.com/custservice/carcig/dsmoptout/dsm_optoutfaq.asp#b3)
27 [energy.com/custservice/carcig/dsmoptout/dsm_optoutfaq.asp#b3](http://progress-energy.com/custservice/carcig/dsmoptout/dsm_optoutfaq.asp#b3)
28

29 **Q. CAN YOU PROVIDE A COPY OF THE SAMPLE LETTER NOTED ON**
30 **THE PROGRESS ENERGY WEBSITE FOR MANUFACTURER THAT**
31 **WISH TO OPT-OUT OF COMPANY SPONSORED EE/DSM**
32 **PROGRAMS?**

33 **A.** Yes. Attached in Appendix B is the sample opt-out letter found on PEC's website
34 for use by its customers to notify the utility of the manufacturers wish to opt-out
35 of the PEC EE/DSM programs. As can be seen in this sample opt-out letter, the
36 manufacturer needs only to notify the utility that it has implemented or will
37 implement energy efficiency or demand side management measures and then
38 request the opt-out..

1
2 **Q. WHAT IS DUKE ENERGY'S POSITION ON THE MATTER OF**
3 **ALLOWING INDUSTRIAL CONSUMERS TO OPT-OUT OF EE/DSM**
4 **PROGRAMS?**

5 **A.** In the recent settlement between Duke, the Office of Regulatory Staff (ORS),
6 SCEUC, and the Southern Environmental Law Center, Duke Energy agreed to
7 allow industrial consumers to opt-out of the utility's proposed energy
8 efficiency/demand side management program, which is called "Save-A-Watt"
9 (SAW), if the industrial has already implemented its own energy efficiency
10 programs. The settlement in the case contains the following opt-out language:

11
12 The Parties agree that all industrial customers (as defined in the
13 subparagraph below) of the Company may elect to opt out of the
14 energy efficiency component of Rider EE on an annual basis
15 during a two month enrollment period to commence January 1 of
16 each year and conclude on March 1 of each year. For purposes of
17 the initial opt-out period for energy efficiency programs, the opt
18 out period shall commence upon issuance of the Commission's
19 order in this docket and conclude sixty days thereafter. Further, the
20 Parties agree that all industrial customers may opt out of the
21 demand-side management component of Rider EE upon a one-time
22 election for the four year energy efficiency plan made within sixty
23 days of the Commission's order in this docket. The rider charge
24 applicable to energy efficiency programs and/or demand-side
25 management programs will not be applied for customers qualified
26 to opt out of the programs. To qualify to opt out, the customer
27 must:

- 28
29 a) Certify or attest to the Company that it has performed or
30 had performed for it an energy audit or analysis within the
31 three year period preceding the opt out request and has
32 implemented or has plans for implementing the cost-
33 effective energy efficiency measures recommended in that
34 audit or analysis; and
35 b) Be served under an electric service agreement where the
36 establishment is classified as a "manufacturing industry" by
37 the Standard Industrial Classification Manual published by

the United States Government, and where more than 50% of the electric energy consumption of such establishment is used for its manufacturing processes.

Q. ARE YOU AWARE OF OTHER STATES WHERE MANUFACTURERS CAN OPT-OUT OF EE/DSM PROGRAMS WITHOUT ALL THE REQUIREMENTS AS PROPOSED IN THIS CASE BY SCE&G?

A. Yes. In 2007 North Carolina passed legislation mandating a renewable energy portfolio standard (REPS) that also gave utilities the opportunity to implement EE/DSM programs. However, the North Carolina legislation specifically gave manufacturers the right to opt-out of utility sponsored EE/DSM activities if the manufacturer has already implemented energy efficiency programs or will do so in the future.

Unlike what SCE&G is proposing in this case, the North Carolina legislation does not create a conflict of interest for the utility by allowing it to be the sole determinant of whether or not the manufacturer can opt-out of the utility profit-driven EE/DSM activities.

**II. IMPACT OF PROPOSED RATE RIDER ON SCE&G
INDUSTRIAL SALES**

**Q. HOW HAVE SCE&G INDUSTRIAL SALES CHANGED IN THE LAST
YEAR?**

A. According to SCANA's third quarter earnings, sales to industrial customers dropped 15.8% for nine months ending Sept. 30, 2009 versus the nine-month period ending Sept. 30, 2008. Such a drop in industrial sales is not surprising given the poor economy in 2009. However, SCE&G should take notice that adding more costs to industrial consumers at the present time could cause irreparable harm to the utility's long-term earnings growth, as well as the long-term unemployment rate in South Carolina.

**Q. PLEASE EXPLAIN THE ROLE OF MANUFACTURING IN THE SOUTH
CAROLINA ECONOMY.**

A. Although manufacturing activity has declined in recent years, manufacturing is still one of the primary economic engines for South Carolina. In fact, according to the Dec. 9, 2009 edition of the *Columbia Regional Business Report*, manufacturing contributes the following to the South Carolina economy:

- manufacturing employs 15% of all South Carolina workers;
- manufacturing pays an average wage in South Carolina of \$46,192, which is 27% above the state wide average wage rate;
- manufacturers pay 13% of all property taxes in the state; and
- total direct and indirect impacts of manufacturing amount to \$141 billion on an annual basis.

1 Within the article, Mr. Ropbert M. Hitt of the South Carolina Manufacturers
2 Alliance makes the following statement:

3 Manufacturing still matters in South Carolina. It will remain well
4 into the future, but only if we recognize its value and promise and
5 are willing to provide the competitive environment and tools
6 necessary for manufacturers to flourish in today's fast-paced and
7 ever-changing world.

8
9 With all that manufacturing has to offer and its critical role in our
10 economy, it is imperative that state leaders, policymakers, media,
11 and the public understand its benefit and the impact of our
12 collective decision-making and perceptions on its future here.

13
14 A complete copy of this article from the *Columbia Regional Business*
15 *Report* can be seen in Appendix C.

16
17 Imposing a rate rider is the polar opposite of the competitive environment and
18 needed tools as noted by Mr. Hitt in the quote above. Manufacturers are a vital
19 part of the South Carolina economy. SCE&G should not harm South Carolina and
20 its citizens by forcing manufacturers to pay a rate rider for projects that
21 manufacturers, themselves, have already invested in for many years. If for no
22 other reason but for the sake of its own earnings, SCE&G would be wise to follow
23 the advice of Mr. Hitt and create a competitive environment for manufacturers by
24 dropping its request to create an energy efficiency/demand side management rate
25 rider that, in reality, will do nothing but provide additional temporary earnings for
26 the utility at the expense of manufacturers, manufacturing employees, and the
27 economy of South Carolina.

1

2

III. RECOMMENDATIONS

3 Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS
4 PROCEEDING.

5 A. I recommend that the Commission allow manufacturers to opt-out of the SCE&G
6 EE/DSM projects in the same manner as ordered in the Progress Energy docket
7 and as agreed to by Duke Energy in its recent rate case settlement. Manufacturers
8 should be allowed to opt-out of energy efficiency and demand side management
9 programs by submitting a letter to SCE&G stating that it has implemented or
10 plans to implement cost-effective EE/DSM measures.

11

12 Q. DOES THIS COMPLETE YOUR TESTIMONY?

13 A. Yes, it does.

14

15

APPENDIX A

Kevin W. O'Donnell, CFA
President
Nova Energy Consultants, Inc.
1350 SE Maynard Rd.
Suite 101
Cary, NC 27511

Education

I received a B.S. degree in Civil Engineering - Construction Option from North Carolina State University in May of 1982 and a Masters of Business Administration in Finance from Florida State University in August of 1984.

Professional Certification

I am a Chartered Financial Analyst (CFA) and a member of the Association of Investment Management and Research.

Work Experience

In September of 1984, I joined the Public Staff of the North Carolina Utilities Commission as a Public Utilities Engineer in the Natural Gas Division. In December of 1984, I transferred to the Public Staff's Economic Research Division and held the position of Public Utility Financial Analyst. In September of 1991, I joined Booth & Associates, Inc., a Raleigh, North Carolina, based electrical engineering firm, as a Senior Financial Analyst. I stayed in this position until June 1994, when I accepted employment as the Director of Retail Rates for the North Carolina Electric Membership Corporation. In January 1995, I formed Nova Utility Services, Inc., an energy consulting firm. In May of 1999, I changed the name of Nova Utility Services, Inc. to Nova Energy Consultants, Inc.

Along with my work with Nova Energy Consultants, Inc., I am also a senior financial analyst for MAKROD Investment Associates of Verona, NJ. MAKROD is a money management firm that specializes in portfolio management services for high wealth individuals and institutional investors.

Testimonies

North Carolina

I have testified before the North Carolina Utilities Commission in the following general rate case proceedings: Public Service Company of North Carolina, Inc. (Docket No. G-5, Sub 200, Sub 207, Sub 246, Sub 327, and Sub 386); Piedmont Natural Gas Company (Docket No. G-9, Sub 251 and Sub 278); General Telephone of the South (Docket No. P-19, Sub 207); North Carolina Power (Docket No. E-22, Sub 314); Piedmont Natural Gas Company (Docket No. E-7, Sub 487); Pennsylvania & Southern Gas Company (Docket No. G-3, Sub 186); and in several water company rate increase proceedings. I also submitted pre-filed testimony, and/or assisted in the settlement process, in Docket Nos. G-9, Sub 378, Sub 382, Sub 428 and Sub 461, which were general rate cases involving Piedmont Natural Gas Company; in Docket No. G-21, Sub 334, North Carolina Natural Gas' most recent general rate case; in Docket No. G-5, Sub 356, Public Service of North Carolina's 1995 general rate case; and in Docket No. G-39, Sub 0, Cardinal Extension Company's rate case. Furthermore, I testified in the 1995 fuel adjustment proceeding for Carolina Power & Light Company (Docket No. E-2, Sub 680) and submitted pre-filed testimony in Docket No. E-7, Sub 559, which was Duke Power's 1995 fuel adjustment proceeding. I also submitted pre-filed testimony and testified in Duke's 2001 fuel adjustment proceeding, which was Docket No. E-7, Sub 685.

Furthermore, I testified in Docket No. G-21, Sub 306 and 307, in which North Carolina Natural Gas Corporation petitioned the Commission to establish a natural gas expansion fund. I also submitted testimony in the Commission's 1998 study of natural gas transportation rates that was part of Docket No. G-5, Sub 386, which was the 1998

general rate case of Public Service Company of North Carolina. In September of 1999, I testified in Docket Nos. G-5, Sub 400 and G-43, which was the merger case of Public Service Company of North Carolina and SCANA Corp. I also submitted testimony and stood cross-examination in the holding company application of NUI Corporation, a utility holding company located in New Jersey, which was NCUC Docket No. G-3, Sub 224, as well as NUI's merger application with Virginia Gas Company, which was Docket No. G-3, Sub 232. I also submitted pre-filed testimony and stood cross-examination in Docket No. G-3, Sub 235, which involved a tariff change request by NUI Corporation. I testified in another holding company application in Docket No. E-2, Sub 753; G-21, Sub 387; and P-708, Sub 5 which was the holding company application of Carolina Power & Light. In June of 2001, I submitted testimony and stood cross-examination in Docket No. E-2, Sub 778, which was CP&L's application to transfer Certificates of Public Convenience and Necessity (CPCN) from two of the Company's generating units to its non-regulated sister company, Progress Energy Ventures. In November of 2001, I testified in Duke Energy's restructuring application, which was Docket No. E-7, Sub 694. In January 2002, I presented testimony in the merger application of Duke Energy Corp. and Westcoast Energy. In April of 2003, I submitted testimony in Dockets Nos. G-9, Sub 470, Sub 430, and E-2, Sub 825, which was the merger application of Piedmont Natural Gas and North Carolina Natural Gas. In May of 2003, I submitted testimony in the general rate case of Cardinal Pipeline Company, which was Docket No. G-39, Sub 4. In July 2003, I filed testimony in Docket No. E-2, Sub 833, which was CP&L's 2003 fuel case proceeding. I prepared pre-filed testimony and stood cross-examination in the merger application of Piedmont Natural Gas and Eastern North Carolina Natural Gas. In July of 2005, I prepared pre-filed testimony in Carolina Power & Light's fuel case in North Carolina. In August of 2005 I assisted in the settlement of Piedmont's 2005 general rate case. In June, 2006, I submitted rebuttal testimony in Docket No. E-100, Sub 103, which was the investigation of integrated resource planning (IRP) in North Carolina. Also in the month of June, 2006, I submitted testimony in Docket No. G-9, Sub 519, which was the application of Piedmont Natural Gas to change its tariffs and service regulations. In

August, 2006, I assisted in the settlement of the rate case of Public Service of North Carolina in Docket No. G-5, Sub 481. In December of 2006, I prepared direct testimony and stood cross-examination in Docket No. E-7, Sub 751, which was application of Duke Power to share net revenues from certain wholesale power transactions. In January, 2007, I submitted testimony in the application of Duke Energy in Docket No. E-7, Sub 790, which was in regard to the construction of two 800 MW coal fired generation units in Rutherford County, North Carolina. In June, 2008, I filed testimony in Duke Energy's Save-A-Watt energy efficiency filing. In August, 2009, I filed testimony in support of the application of Western Carolina University for an increase in rates and charges. In October, 2009, I assisted in the settlement of Duke Energy's general rate case proceeding.

South Carolina

In August of 2002, I submitted pre-filed testimony and stood cross-examination before the South Carolina Public Service Commission in Docket No. 2002-63-G, which was Piedmont's 2002 general rate case. In October of 2004, I submitted pre-filed testimony and stood cross-examination in the general rate case of South Carolina Electric & Gas. In March 2005, I prepared pre-filed testimony and assisted in the settlement involving the fuel application proceeding of South Carolina Electric & Gas. In April of 2005, I prepared pre-filed testimony and assisted in the settlement of Carolina Power & Light's fuel case in South Carolina. In March 2006, I assisted in the settlement involving the fuel application proceeding of South Carolina Electric & Gas. In November of 2007 I assisted in the settlement of the 2007 South Carolina Electric & Gas general rate case proceeding. In October, 2008, I submitted testimony in the 2008 South Carolina Electric & Gas base load review act proceeding. In November, 2009, I submitted testimony in Duke Energy's 2009 general rate case proceeding.

United States Congress

In May of 1996, I testified before the U.S. House of Representatives, Committee on Commerce and Subcommittee on Energy and Power concerning competition within the electric utility industry.

I have also worked with North Carolina and South Carolina municipalities in presenting comments to the Federal Energy Regulatory Commission regarding the opening of the wholesale power markets in the Carolinas.

Publications

I have also published the following articles: Municipal Aggregation: The Future is Today, *Public Utilities Fortnightly*, October 1, 1995; Small Town, Big Price Cuts, *Energy Buyers Guide*, January 1, 1997; and Worth the Wait, But Still at Risk, *Public Utilities Fortnightly*, May 1, 2000. All of these articles dealt with my firm's experience in working with small towns that purchase their power supplies in the open wholesale power markets.

APPENDIX B

SC CUSTOMER OPT OUT TEMPLATE

Progress Energy Carolinas, Inc.
CSC - CIGS Team
PO Box 1771
Raleigh, NC 27602

Dear Progress Energy:

The purpose of this letter is to notify Progress Energy Carolinas (PEC) of our decision to not participate in the annual cost recovery rider for PEC's Demand-Side Management (DSM) and Energy Efficiency (EE) Programs. At our own expense, we have already implemented or will be implementing alternative DSM/EE measures, in accordance with stated, quantifiable goals for demand-side management and energy efficiency.

Therefore, we are requesting that the following PEC accounts (or list attached) be excluded from charges associated with PEC's DSM/EE programs:

PEC Account Number(s):

We understand PEC will be informing the SC Public Service Commission of our decision to opt out these accounts.

Yours very truly,

Company Name: _____

Signed _____
Title: _____
Date: _____

APPENDIX C

1

COLUMBIA REGIONAL BUSINESS REPORT

Monday, January 04, 2010

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Study: Manufacturing remains a mainstay of S.C. economy

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Staff Report
Published Dec. 9, 2009

Despite the pressures of the recession and despite its status as an economic sector in transition, manufacturing continues to constitute the largest industry cluster in South Carolina, according to a new economic impact study by Miley Gallo and Associates LLC.



The data showed almost 5,200 manufacturing establishments in the state in 2008. That is 4.6% of all establishments, though the manufacturers paid more than 20% of all wages paid in South Carolina, and constituted more than 15% of all jobs.

"The benefits and economic impact of manufacturing in South Carolina are great — historically and today," Robert M. Hill, chairman of the S.C. Manufacturers Alliance, wrote in the introduction to the new study, which his group commissioned. "Contrary to what we too often hear and see in the public dialogue, manufacturing still matters, and the growth potential for South Carolina's manufacturing sector is significant."

Some highlights of the study include:

Total direct and indirect impacts of manufacturing were \$141 billion per year. Direct impact was more than \$95

billion, and indirect impact was \$46 billion.

- Manufacturers pay 13% of all property taxes statewide. In some counties, the manufacturers' share is more than 50%. Calhoun County, for example, reaps 62% of property taxes from manufacturers.

Employment trends show a declining but important manufacturing base in several key areas of the state:

County	Total Employment	Manufacturing Employment	% of Total County Employment	County Average Wage	Per Capita Income
Greenville	224,240	28,619	12.6%	\$38,272	\$35,076
Spartanburg	111,644	23,788	21.3%	\$36,118	\$28,971
Anderson	55,868	11,188	20.0%	\$31,408	\$29,084
Charleston	203,699	10,669	5.2%	\$37,908	\$38,702
Richland	208,452	10,434	5.1%	\$39,158	\$34,434
Lexington	93,431	10,314	11.0%	\$32,708	\$34,744
York	73,928	8,649	11.7%	\$35,152	\$32,627
Sumter	34,880	8,229	18.0%	\$30,212	\$27,578
Greenwood	28,316	8,154	21.7%	\$34,832	\$27,297
Florence	59,653	6,133	10.3%	\$34,738	\$31,802

Manufacturing, however, has not grown at a pace with the rest of the economy, the data show. Although the gross state product for all industries increased 52% during the past decade, manufacturing grew by 6%.

For those still employed in manufacturing, wages remain among the highest in the state. The average manufacturing wage of \$48,192 is more than 27% above the statewide average, the report states.

"Six Sigma" Certified?

Exhibit A to Settlement Agreement Page 27 of 27

Columbia Regional Business Report | Columbia, SC

Direct labor income from manufacturing amounts to almost \$16.5 billion.

Adding new manufacturing will continue to be an important part of the state's economic development strategy, the study indicates.

The Miley Gallo study suggests that the addition of another auto parts maker with 200 employees would have a direct economic output of \$57.3 million and additional indirect economic impact of \$28.8 million.

"Manufacturing provides good jobs for our state's residents with wages that are substantially higher than nonmanufacturing jobs," said Hitt, who is also chief spokesman for BMW Manufacturing near Greer. "Manufacturing has a greater multiplier effect on the rest of our economy than any other industry sector. Also, manufacturing drives private-sector development and innovation — leading to advanced technologies and products that improve our quality of life.

"Manufacturing still matters in South Carolina," Hitt continued. "It will remain well into the future, but only if we recognize its value and promise and are willing to provide the competitive environment and tools necessary for manufacturers to flourish in today's fast-paced and ever-changing world.

"With all that manufacturing has to offer and its critical role in our economy, it is imperative that state leaders, policymakers, media, and the public understand its benefit and the impact of our collective decision-making and perceptions on its future here," Hitt said.

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Secret War On The Dollar
Read the Shocking Bulletin That Washington
Does Not Want You To See



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